

CITY OF READING, MICHIGAN
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
YEAR ENDED JUNE 30, 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Reading	County Hillsdale
Fiscal Year End 6/30/06	Opinion Date 8/10/06	Date Audit Report Submitted to State October 11, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

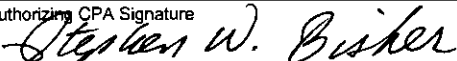
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Osbourne, March, Condon & Co., P.C.		Telephone Number 517.439.9331		
Street Address 184 W. Carleton Road		City Hillsdale	State MI	Zip 49242
Authorizing CPA Signature 		Printed Name Stephen W. Bisher		License Number 1101026492

CITY OF READING, MICHIGAN

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Osbourne, March, Condon & Co., P.C.

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Reading, Michigan
Reading, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Reading, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The City of Reading, Michigan, included in its basic financial statements its investment in Reading Community Fire Department, a joint venture between the City and Reading Township, based on financial statements that have not been audited, and we were not engaged to audit the joint venture financial statements as part of our audit of the City's basic financial statements. The joint venture financial activities, as described in Note 2, are included in the City's basic financial statements as governmental activities and represent approximately 3.2%, 3.4%, and 1.2% of the assets, net assets, and expenses, respectively, of the City's aggregate governmental activities.

In our opinion, except for the effects of such adjustments to governmental activities financial statements, if any, as might have been determined to be necessary had the Reading Community Fire Department's financial statements been audited, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for City of Reading, Michigan, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2006 on our consideration of City of Reading, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of the audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis, budgetary comparisons and retirement system analysis of funding progress on pages iii through ix and 34 through 35 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Osbourne, March, Condon & Co P.C.

Certified Public Accountants

Hillsdale, Michigan
August 10, 2006

CITY OF READING, MICHIGAN

Management's Discussion and Analysis Year Ended June 30, 2006

The following discussion and analysis of the financial performance for the City of Reading, Michigan, (the "City") provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements.

Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2006:

- Property taxes are the City's single largest source of revenue. The City's tax base, net of captured taxable value from the TIFA, for fiscal year 2006 was equal to a taxable value of \$10,971,000 which represents an increase of \$549,000 or 5.0 percent.
- State-shared revenue, the second largest revenue source, was approximately the same as prior year totaling \$128,944 this year.
- The City expended \$34,612 for a new mower in the amount of \$7,150, street improvements totaling \$22,837, and parking lot improvements totaling \$4,625.
- The City received a grant from the State of Michigan for a new Auto-mark voter assist terminal machine in the amount of \$7,000.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Reading, Michigan's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business, and therefore, are prepared using the accrual basis of accounting. These statements provide a longer-term view of the City's finances and whether taxpayers have funded the full cost of providing government services. The first two statements are government-wide and include the following:

- The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and state shared revenues and earned but unused sick and vacation leave).

Overview of the Financial Statements (Continued)

Government-wide financial statements (concluded). The governmental activities of the City include general government, public safety, public works, capital improvement, and parks and recreation. The government-wide financial statements can be found on pages 1-2 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City of Reading, Michigan, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report the City's operations in more detail than the government-wide financial statements. These statements present a short-term view and tell how taxpayer resources were spent during the year. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements tell how general government services, like public safety, were financed in the short-term as well as what remains for future spending. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Reading, Michigan, maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Street, Local Street, and Capital Projects Fund. Only the General Fund is considered a major fund. The remaining funds are reported as non-major funds.

The City adopts an annual appropriated budget for all its funds, except for the Capital Projects Fund. Budgetary comparison schedules have been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 3-6 of this report.

Proprietary funds. The City of Reading, Michigan maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer disposal systems operations and refuse operations. The *Internal Service fund* is used to report machinery and equipment purchases and maintenance of the equipment provided to other departments of the City on a cost reimbursement basis. This fund's primary charges are to governmental activities and have been included as such in the government-wide financial statements.

Overview of the Financial Statements (Concluded)

Proprietary funds (concluded). Proprietary funds provide the same type of information as the government-wide financial statements, but provide more detail and information, such as cash flows. The proprietary fund financial statements provide separate information of the Water and Sewer Fund, both of which are considered to be major funds, and separate information of the Refuse Fund which is classified as a non-major fund. The basic proprietary fund financial statements can be found on pages 7-11 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government, such as the Tax Fund where property taxes are collected and disbursed on behalf of other local units of government, or restricted for a particular use, such as the Cemetery Perpetual Care Trust Fund established by individuals in the community for maintenance of the City's cemetery. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support City of Reading, Michigan's own programs or because of restrictions on the use of the resources that benefit individuals. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 12-13 of this report.

Financial Analysis of the City as a Whole

The City's combined net assets increased by approximately 3.0 percent from a year ago.

The increase in net assets of governmental activities in the amount of \$66,112 is due to the following:

- There was a net decrease in capital and infrastructure assets in the amount of \$4,537 resulting from equipment disposals.
- The City increased its cash on hand by approximately \$81,187.
- The City's investment in the Reading Community Fire Department, a joint venture between the City and Reading Township, decreased by \$4,400 during the year.
- A decrease in net assets resulting from net changes in various other assets and liabilities in the amount of \$6,138.

The decrease in net assets of business-type activities in the amount of \$63,411 is due to the following:

- There was a decrease in net capital assets in the amount of \$12,776 due to depreciation expense exceeding capital purchases.
- Increase in cash by \$53,254.
- Increase in inventory of \$5,725 resulting from a restatement of prior years net assets.
- Reduction of long-term and short-term liability obligations net of increase in cash and receivables in the amount of \$17,208.

CITY OF READING, MICHIGAN

Management's Discussion and Analysis Year Ended June 30, 2006

Financial Analysis of the City as a Whole (Continued)

The following table shows, in a condensed format, the net assets of the City of Reading, Michigan as of June 30, 2006 and 2005.

TABLE 1 – City of Reading, Michigan's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current assets	\$ 639,231	\$ 558,044	\$ 640,044	\$ 583,525	\$ 1,279,275	\$ 1,141,569
Capital assets	507,159	511,696	2,466,176	2,478,952	2,973,335	2,990,648
Other noncurrent assets	1,379,827	1,390,227	28,657	37,151	1,408,484	1,427,378
Total Assets	\$ 2,526,217	\$ 2,459,967	\$ 3,134,877	\$ 3,099,628	\$ 5,661,094	\$ 5,559,595
Liabilities and Net Assets						
Liabilities:						
Current liabilities	\$ 26,774	\$ 21,782	\$ 47,850	\$ 45,958	\$ 74,624	\$ 67,740
Long-term liabilities	111,770	116,624	1,203,413	1,233,467	1,315,183	1,350,091
Total Liabilities	\$ 138,544	\$ 138,406	\$ 1,251,263	\$ 1,279,425	\$ 1,389,807	\$ 1,417,831
Net Assets:						
Invested in capital, net of related debt	\$ 591,086	\$ 416,696	\$ 1,235,126	\$ 1,210,352	\$ 1,826,212	\$ 1,627,048
Restricted	1,438		158,591	256,773	160,029	256,773
Unrestricted	1,795,149	1,904,865	489,897	353,078	2,285,046	2,257,943
Total Net Assets	\$ 2,387,673	\$ 2,321,561	\$ 1,883,614	\$ 1,820,203	\$ 4,271,287	\$ 4,141,764
Total Net Assets and Liabilities	\$ 2,526,217	\$ 2,459,967	\$ 3,134,877	\$ 3,099,628	\$ 5,661,094	\$ 5,559,595

(Internal balances are not eliminated in the above table.)

The following is the government-wide results of operations for the fiscal year ended June 30, 2006:

The City's governmental activity revenues are derived primarily from property taxes, state-shared revenues, interest income and charges for services. Revenues for fiscal year 2006 were actually down by \$1,300 compared to last year due to less state funding and decline in charges for services.

The City's Business-Type Activities, which are made up of water, sewer and refuse revenues, are derived from charges for services and interest income. The sewer fund remained in the black as was the case in prior year. Revenues in the refuse fund increased due to a rate increase of \$1.00/month per unit for the monthly refuse rates. The revenues have decreased in the business-type activities due to the fact that the water fund revenues have been declining over the past few years. The City increased its readiness to serve charge based on meter size. This will cover costs for maintaining the system regardless of whether water is used. The water fund reported a net loss of \$38,739 at current year end.

CITY OF READING, MICHIGAN

Management's Discussion and Analysis Year Ended June 30, 2006

Financial Analysis of the City as a Whole (Concluded)

TABLE 2 – Changes in City of Reading, Michigan's Net Assets

	Governmental Activities		Business-Type Activities	
	2006	2005	2006	2005
General Revenue				
Property taxes	\$ 145,816	\$ 137,970	\$	\$
State revenues	219,651	220,470		
Charges for services	27,801	29,033	464,522	448,495
Interest	13,982	5,924	8,676	6,672
TIFA donations	9,009	5,205		
Other	11,350	30,307	1,237	1,712
Total Revenue	<u>\$ 427,609</u>	<u>\$ 428,909</u>	<u>\$ 474,435</u>	<u>\$ 468,479</u>
Program Expenses				
General government	\$ 171,990	\$ 174,574	\$	\$
Public safety	80,104	87,552		
Highways and streets	97,029	104,965		
Capital outlay		7,093		
Depreciation (unallocated)	12,374	13,180		
Water			178,293	244,670
Sewer			204,005	107,017
Refuse			54,423	51,570
Total Program Expenses	<u>\$ 361,497</u>	<u>\$ 387,364</u>	<u>\$ 436,721</u>	<u>\$ 403,257</u>
Change in Net Assets	<u>\$ 66,112</u>	<u>\$ 41,545</u>	<u>\$ 37,714</u>	<u>\$ 65,222</u>

Financial Analysis of the City's Funds

The Major and Local Street Funds are used for maintenance of the City streets. The City spent \$22,837 of Local Street Fund dollars to mill and resurface State Street from Strong Street to Wesley Street. The City was also able to do additional chip sealing to both Elm and Silver Streets.

The Capital Projects Fund, which is supported by transfers in from the City's Major Funds, was not utilized during the year; i.e., no activity occurred in this fund.

The Sewer Fund has been able to remain in the black after increasing rates in September of 2004. The Water Fund has shown a decrease in revenues in the last few years. This continuous decline resulted in increases in the City's readiness to serve charge based on meter size. The City anticipates this will help reduce, if not eliminate, future operating losses.

The Internal Service Fund remained strong. We traded in the Gravelly Mower for a new model, and also sold off some unused equipment no longer needed or that had been replaced in previous years. The sale of that equipment helped off set the replacement of the mower.

CITY OF READING, MICHIGAN

Management's Discussion and Analysis Year Ended June 30, 2006

General Fund Highlights

The General Fund pays for services such as police and fire protection. The total operating costs for these services was \$81,104. The General Fund also appropriates funds to the Local Streets for street maintenance costs. Additional dollars spent from the General Fund are for local, state and federal elections, tax assessing services and planning/zoning activities. City departments overall stayed below budget, resulting in total expenditures of approximately \$73,000 below the original budget.

Capital Asset and Debt Administration

At the end of fiscal year 2006, the City had approximately \$2,973,335 (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, vehicles, etc. The City elected to follow the method of prospective reporting of infrastructure assets provided in accounting standards. The only infrastructure assets reported at June 30, 2006 are storm drains, street improvements, and parking lot improvements totaling \$93,390 (net of depreciation).

The City continues to pay down existing debt obligations related to capital investments. At June 30, 2006 debt related to capital assets totaled \$1,316,000. These debt obligations are scheduled to be paid off by November 2036.

Economic Factors and Next Year's Budgets and Rates

The City's General Fund budget for next year calls for slight increase in property taxes, and interest income and another slight drop in state revenue. With the slight increases the General Fund is still able to maintain the same services as prior years. Also the City has received grant funds to upgrade the facades on the buildings that house City Hall and the Police Department. This will help to repaint, tuck point, clean the brick and even fix a crumbling foundation.

The Major and Local Street Funds have budgeted conservatively, but are intending on continuing some necessary maintenance to streets such as continued chip sealing and slurry sealing, and the milling and repaving of Railroad and Warner Streets and also paving the gravel portion of Warner Street. This work will include some additional storm drain work to replace culverts under Warner Street and even do some ditching for better storm water run off on Lincoln Street.

The Water Fund finally saw a rate increase on April 1, 2006 and an additional rate increase on August 1, 2006. This rate increase shows a restructure of the readiness to serve charge by meter size. The City has already seen expenditures in the fund due to the EPA's change in the arsenic standards and the need to hire a consultant to do preliminary design for removal of the arsenic. The City has decided to implement an iron removal system that will not only remove the arsenic in the City's water supply but also other contaminants for possible future mandates. Once the City is sure of the cost of this system the City will have to look at the additional debt and conduct another rate study to see whether or not there is a need for an additional increase.

The Sewer Fund still looks good financially, but the City will be bidding out and closing on a loan with USDA Rural Development for funds in the amount of \$3.15 million dollars to install a third lagoon, upgrade all five lift stations and replace sanitary and storm lines from the detention basin on Walnut Street to the lagoon sight and Prouty drain on Lilac Road in Reading Township. At that time the City will need to do a sewer rate analysis to determine whether the sewer fund can meet the debt service payments.

Economic Factors and Next Year's Budgets and Rates (Concluded)

The City's 2006/2007 budget is basically conservative while still maintaining the level of services that the taxpayers expect. These include, but are not limited to, police and fire protection, street maintenance, planning/zoning, code enforcement, refuse pick up, water and sewer services and a monthly brush/yard waste pick up service and a quarterly newsletter that is being done jointly by the City, Township, and Chamber of Commerce.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report, or need additional information, or would like to obtain financial statements, we welcome you to contact the City Clerk's office located at 113 Main Street, Reading, Michigan 49274.

CITY OF READING, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2006

	PRIMARY GOVERNMENT				COMPONENT UNIT
	GOVERNMENTAL ACTIVITIES	BUSINESS ACTIVITIES	ELIMINATION OF INTERNAL BALANCES	TOTAL	TAX INCREMENT FINANCE AUTHORITY
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 582,353	\$ 538,207	\$	\$ 1,120,560	\$ 127,391
Accounts receivable		65,428		65,428	
Bond assessment receivable, current portion		8,494		8,494	
Due from other governments	55,378			55,378	
Inventory		18,619		18,619	
Internal balances	1,500	9,296	(10,796)		
Total Current Assets	\$ 639,231	\$ 640,044	\$ (10,796)	\$ 1,268,479	\$ 127,391
Noncurrent Assets:					
Bond assessment receivable, net of current portion	\$	\$ 28,657	\$	\$ 28,657	\$
Cemetery grave sites	1,299,600			1,299,600	
Investment in joint venture	80,227			80,227	
Investment in land					909,469
Capital assets	749,235	3,659,743		4,408,978	17,860
Infrastructure assets	97,327			97,327	
Construction in process		191,114		191,114	
Accumulated depreciation	(339,403)	(1,384,681)		(1,724,084)	(5,880)
Total Noncurrent Assets	\$ 1,886,986	\$ 2,494,833	\$	\$ 4,381,819	\$ 921,449
TOTAL ASSETS	\$ 2,526,217	\$ 3,134,877	\$ (10,796)	\$ 5,650,298	\$ 1,048,840
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts payable	\$ 4,827	\$ 4,280	\$	\$ 9,107	\$ 1,724
Long-term debt, current portion	10,000	30,000		40,000	16,000
Compensated absences, current portion	2,651	3,470		6,121	
Accrued interest		8,600		8,600	
Internal balances	9,296	1,500	(10,796)		
Total Current Liabilities	\$ 26,774	\$ 47,850	\$ (10,796)	\$ 63,828	\$ 17,724
Noncurrent Liabilities:					
Compensated absences, net of current portion	\$ 3,030	\$ 2,413	\$	\$ 5,443	\$
Pension benefit obligation	33,740			33,740	
Long-term debt, net of current portion	75,000	1,201,000		1,276,000	562,521
Total Noncurrent Liabilities	\$ 111,770	\$ 1,203,413	\$	\$ 1,315,183	\$ 562,521
TOTAL LIABILITIES	\$ 138,544	\$ 1,251,263	\$ (10,796)	\$ 1,379,011	\$ 580,245
Net Assets:					
Invested in capital assets, net of related debt	\$ 591,086	\$ 1,235,126	\$	\$ 1,826,212	\$
Restricted	1,438	158,591		160,029	
Unrestricted	1,795,149	489,897		2,285,046	468,595
Total Net Assets	\$ 2,387,673	\$ 1,883,614	\$	\$ 4,271,287	\$ 468,595
TOTAL LIABILITIES AND NET ASSETS	\$ 2,526,217	\$ 3,134,877	\$ (10,796)	\$ 5,650,298	\$ 1,048,840

See accompanying notes to the basic financial statements.

CITY OF READING, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

	PROGRAM REVENUES		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT			
Governmental Activities:			
General government	\$ 171,990	\$ 27,801	\$ 9,009
Public safety	80,104		500
Highways and streets	97,029		78,582
Depreciation (unallocated) - excludes direct depreciation expense	12,374		
Total Governmental Activities	<u>\$ 361,497</u>	<u>\$ 27,801</u>	<u>\$ 88,091</u>
Business-type Activities:			
Sewer Fund	\$ 100,000	\$ 204,005	\$
Water Fund	229,415	178,293	
Refuse Fund	53,808	54,423	
Total Business-type Activities	<u>\$ 383,223</u>	<u>\$ 436,721</u>	<u>\$</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 744,720</u>	<u>\$ 464,522</u>	<u>\$ 88,091</u>
COMPONENT UNITS			
Tax Increment Finance Authority	<u>\$ 206,610</u>	<u>\$</u>	<u>\$</u>

GENERAL REVENUES

Property taxes
State-shared revenues
Interest
Other
Rental income

TOTAL GENERAL REVENUES

CHANGE IN NET ASSETS

NET ASSETS - BEGINNING OF YEAR

NET ASSETS - END OF YEAR

See accompanying notes to the basic financial statements.

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS

<u>PRIMARY GOVERNMENT</u>			<u>COMPONENT UNIT</u>
<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>	<u>TAX INCREMENT FINANCE AUTHORITY</u>
\$ (123,555)	\$	\$ (123,555)	\$
(79,604)		(79,604)	
(18,447)		(18,447)	
(12,374)		(12,374)	
<u>\$ (233,980)</u>	<u>\$</u>	<u>\$ (233,980)</u>	<u>\$</u>
\$	\$ 104,005	\$ 104,005	\$
	(51,122)	(51,122)	
	615	615	
<u>\$</u>	<u>\$ 53,498</u>	<u>\$ 53,498</u>	<u>\$</u>
<u>\$ (233,980)</u>	<u>\$ 53,498</u>	<u>\$ (180,482)</u>	<u>\$</u>
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ (206,610)</u>
\$ 145,816	\$	\$ 145,816	\$ 87,020
128,944		128,944	
13,982	8,676	22,658	3,677
8,750	1,237	9,987	270
2,600		2,600	31,429
<u>\$ 300,092</u>	<u>\$ 9,913</u>	<u>\$ 310,005</u>	<u>\$ 122,396</u>
\$ 66,112	\$ 63,411	\$ 129,523	\$ (84,214)
2,321,561	1,820,203	4,141,764	552,809
<u>\$ 2,387,673</u>	<u>\$ 1,883,614</u>	<u>\$ 4,271,287</u>	<u>\$ 468,595</u>

CITY OF READING, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2006

	MAJOR FUND GENERAL	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash and cash equivalents	\$ 383,755	\$ 26,423	\$ 410,178
Due from other governmental units	42,301	13,077	55,378
Due from other funds	1,500		1,500
TOTAL ASSETS	<u>\$ 427,556</u>	<u>\$ 39,500</u>	<u>\$ 467,056</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 2,928	\$ 754	\$ 3,682
Fund Balances:			
Reserved	\$ 1,438	\$	\$ 1,438
Board designated	31,679		31,679
Unreserved, undesignated	391,511	38,746	430,257
Total Fund Balances	<u>\$ 424,628</u>	<u>\$ 38,746</u>	<u>\$ 463,374</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 427,556</u>	<u>\$ 39,500</u>	<u>\$ 467,056</u>

See accompanying notes to the basic financial statements.

CITY OF READING, MICHIGAN

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS

JUNE 30, 2006

GOVERNMENTAL FUND BALANCE	\$	463,374
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources, and are not reported in the funds		
The cost of the capital and infrastructure assets is	\$	466,961
Accumulated depreciation is		<u>(128,729)</u>
		338,232
Long-term liabilities are not due and payable in the current period and are not reported in the funds		
Pension benefit obligation		(33,740)
Fire truck loan		(85,000)
Compensated absences		(5,239)
Cemetery grave sites available for sale are not current financial resources		1,299,600
The Internal Service Fund is also included as governmental activities		330,219
Investment in joint venture		<u>80,227</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>2,387,673</u></u>

See accompanying notes to the basic financial statements.

CITY OF READING, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2006

	MAJOR FUND GENERAL	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Taxes	\$ 145,816	\$	\$ 145,816
State revenues	140,883	78,582	219,465
Charges for services	27,957		27,957
Licenses and permits	5,616		5,616
Fines, fees, and forfeits	228		228
Component unit contributions	9,195		9,195
Interest	13,244	738	13,982
Lease revenue	2,600		2,600
Other	8,750		8,750
TOTAL REVENUES	\$ 354,289	\$ 79,320	\$ 433,609
EXPENDITURES			
Current:			
General government	\$ 159,762	\$	\$ 159,762
Public safety	76,029		76,029
Highways and streets		124,328	124,328
Public works			
Capital outlay	11,625		11,625
TOTAL EXPENDITURES	\$ 247,416	\$ 124,328	\$ 371,744
REVENUES OVER (UNDER) EXPENDITURES	\$ 106,873	\$ (45,008)	\$ 61,865
OTHER FINANCING SOURCES (USES)			
Operating transfers in	\$	\$ 39,000	\$ 39,000
Operating transfers (out)	(29,000)	(10,000)	(39,000)
Payment on note	(13,414)		(13,414)
TOTAL OTHER FINANCING SOURCES (USES)	\$ (42,414)	\$ 29,000	\$ (13,414)
NET CHANGE IN FUND BALANCE	\$ 64,459	\$ (16,008)	\$ 48,451
FUND BALANCES - BEGINNING OF YEAR	360,169	54,754	414,923
FUND BALANCES - END OF YEAR	\$ 424,628	\$ 38,746	\$ 463,374

See accompanying notes to the basic financial statements.

CITY OF READING, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

JUNE 30, 2006

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 48,451

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures, and in the statement of activities these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$ (12,374)	
Capital outlay	<u>34,462</u>	22,088

Actuarial valuation of the pension benefit obligation that results in an increase in the obligation is not recorded in the governmental funds, but is recorded in the governmental activities as an increase in current year contributions (10,262)

Increase in accumulated employee sick and vacation pay are recorded when earned in the statement of activities (59)

Repayment of fire truck loan is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 10,000

Internal Service Funds are also included as governmental activities to the extent of activity occurring between governmental funds and the Internal Service Fund 6,294

Net loss from joint venture is not recorded in the governmental funds, but is recorded in the statement of activities (4,400)

Cash collections on the sale of cemetery lots are included in revenues in the governmental funds, but are not included in revenues in the governmental activities (6,000)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 66,112

See accompanying notes to the basic financial statements.

CITY OF READING, MICHIGAN

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2006

	ENTERPRISE FUNDS	
	MAJOR FUNDS	
	SEWER	WATER
ASSETS		
Current Assets:		
Cash	\$ 189,603	\$ 345,394
Accounts receivables	29,791	26,339
Bond assessment receivable, current portion		8,494
Inventory		18,619
Total Current Assets	<u>\$ 219,394</u>	<u>\$ 398,846</u>
Noncurrent Assets:		
Bond assessment receivable, net of current portion	\$	\$ 28,657
Capital assets	1,053,739	2,797,118
Accumulated depreciation	(561,246)	(823,435)
Total Noncurrent Assets	<u>\$ 492,493</u>	<u>\$ 2,002,340</u>
TOTAL ASSETS	<u><u>\$ 711,887</u></u>	<u><u>\$ 2,401,186</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 577	\$ 3,681
Long-term debt, current portion		30,000
Compensated absences, current portion	1,642	1,828
Accrued interest		8,600
Due to other funds		
Total Current Liabilities	<u>\$ 2,219</u>	<u>\$ 44,109</u>
Noncurrent Liabilities:		
Compensated absences, net of current portion	\$ 1,206	\$ 1,207
Long-term debt, net of current portion		1,201,000
Total Noncurrent Liabilities	<u>\$ 1,206</u>	<u>\$ 1,202,207</u>
TOTAL LIABILITIES	<u>\$ 3,425</u>	<u>\$ 1,246,316</u>
Net Assets :		
Invested in capital assets, net of related debt	\$ 492,493	\$ 742,633
Restricted for bond repayment		158,591
Unrestricted	215,969	253,646
Total Net Assets	<u>\$ 708,462</u>	<u>\$ 1,154,870</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 711,887</u></u>	<u><u>\$ 2,401,186</u></u>

See accompanying notes to the basic financial statements.

ENTERPRISE FUNDS		INTERNAL SERVICE FUND
NONMAJOR FUND		
REFUSE	TOTAL	EQUIPMENT
\$ 3,210	\$ 538,207	\$ 172,175
9,298	65,428	
	8,494	
	18,619	
\$ 12,508	\$ 630,748	\$ 172,175
\$	\$ 28,657	\$
	3,850,857	379,601
	(1,384,681)	(210,674)
\$	\$ 2,494,833	\$ 168,927
\$ 12,508	\$ 3,125,581	\$ 341,102
\$ 22	\$ 4,280	\$ 1,145
	30,000	
	3,470	
	8,600	
1,500	1,500	
\$ 1,522	\$ 47,850	\$ 1,145
\$	\$ 2,413	\$ 442
	1,201,000	
\$	\$ 1,203,413	\$ 442
\$ 1,522	\$ 1,251,263	\$ 1,587
\$	\$ 1,235,126	\$ 168,927
	158,591	
10,986	480,601	170,588
\$ 10,986	\$ 1,874,318	\$ 339,515
\$ 12,508	\$ 3,125,581	\$ 341,102

CITY OF READING, MICHIGAN

PROPRIETARY FUNDS

RECONCILIATION OF ENTERPRISE FUNDS STATEMENT OF NET ASSETS
WITH THE STATEMENT OF NET ASSETS OF BUSINESS ACTIVITIES

YEAR ENDED JUNE 30, 2006

ENTERPRISE FUNDS NET ASSETS	\$ 1,874,318
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Amounts reported for business activities in the statement of net assets are different because:

Internal Service Funds are also included as business activities to the extent of activity
occurring between Enterprise Funds and the Internal Service Fund

9,296

NET ASSETS OF BUSINESS-TYPE ACTIVITIES

<u>\$ 1,883,614</u>

See accompanying notes to the basic financial statements.

CITY OF READING, MICHIGAN

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS

YEAR ENDED JUNE 30, 2006

	ENTERPRISE FUNDS	
	MAJOR FUNDS	
	SEWER	WATER
OPERATING REVENUES		
Charges for services	\$ 204,005	\$ 178,293
Rental income		
TOTAL OPERATING REVENUE	\$ 204,005	\$ 178,293
OPERATING EXPENSES		
General operations and maintenance	\$ 84,579	\$ 118,732
Depreciation	16,777	55,671
TOTAL OPERATING EXPENSES	\$ 101,356	\$ 174,403
OPERATING INCOME (LOSS)	\$ 102,649	\$ 3,890
NON-OPERATING REVENUES (EXPENSES)		
Interest income	\$ 419	\$ 8,257
Interest expense		(57,045)
Gain on sale of equipment		1,237
Other income		
TOTAL NET NON-OPERATING REVENUES (EXPENSES)	\$ 419	\$ (47,551)
NET INCOME (LOSS)	\$ 103,068	\$ (43,661)
TOTAL NET ASSETS - BEGINNING OF YEAR	605,394	1,198,531
TOTAL NET ASSETS - END OF YEAR	\$ 708,462	\$ 1,154,870

See accompanying notes to the basic financial statements.

<u>ENTERPRISE FUNDS</u>		<u>INTERNAL SERVICE FUND</u>
<u>NON MAJOR FUND</u>		
<u>REFUSE</u>	<u>TOTAL</u>	<u>EQUIPMENT</u>
\$ 54,423	\$ 436,721	\$ 66,194
<u>\$ 54,423</u>	<u>\$ 436,721</u>	<u>\$ 66,194</u>
\$ 53,808	\$ 257,119	\$ 36,022
	72,448	31,500
<u>\$ 53,808</u>	<u>\$ 329,567</u>	<u>\$ 67,522</u>
<u>\$ 615</u>	<u>\$ 107,154</u>	<u>\$ (1,328)</u>
\$	\$ 8,676	\$ 3,511
	(57,045)	7,500
	<u>1,237</u>	
<u>\$</u>	<u>\$ (47,132)</u>	<u>\$ 11,011</u>
\$ 615	\$ 60,022	\$ 9,683
<u>10,371</u>	<u>1,814,296</u>	<u>329,832</u>
<u>\$ 10,986</u>	<u>\$ 1,874,318</u>	<u>\$ 339,515</u>

CITY OF READING, MICHIGAN

PROPRIETARY FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

NET CHANGE IN NET ASSETS - TOTAL ENTERPRISE FUNDS	\$ 60,022
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Amounts reported for business activities in the statement of activities are different because:

Internal Service Funds are also included as business activities to the extent of activity occurring between Enterprise Funds and the Internal Service Fund	<u>3,389</u>
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CHANGE IN NET ASSETS OF BUSINESS ACTIVITIES	<u><u>\$ 63,411</u></u>
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See accompanying notes to the basic financial statements.

CITY OF READING, MICHIGAN

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2006

	ENTERPRISE FUNDS	
	MAJOR FUND	
	SEWER	WATER
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 209,235	\$ 181,128
Cash receipts for interfund services provided		
Payments to employees	(35,812)	(43,784)
Payments to suppliers	(40,431)	(66,814)
Payments to interfund services provided	(9,472)	(13,353)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 123,520</u>	<u>\$ 57,177</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Other cash receipts	<u>\$</u>	<u>\$ 1,237</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Collection of customer assessments (principal and interest)	\$	\$ 8,013
Interest paid on capital debt		(57,045)
Principal paid on capital debt		(29,000)
Proceeds from sale of equipment		
Purchase of capital assets	<u>(46,172)</u>	<u>(13,500)</u>
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>\$ (46,172)</u>	<u>\$ (91,532)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest	<u>\$ 419</u>	<u>\$ 8,257</u>
NET CHANGE IN CASH	\$ 77,767	\$ (24,861)
CASH - BEGINNING OF YEAR	<u>111,836</u>	<u>370,255</u>
CASH - END OF YEAR	<u><u>\$ 189,603</u></u>	<u><u>\$ 345,394</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	<u>\$ 102,649</u>	<u>\$ 3,890</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	\$ 16,777	\$ 55,671
(Increase) decrease in:		
Accounts receivable	5,230	2,835
Inventory		(5,725)
Increase (decrease) in:		
Accounts payable	(1,358)	316
Other accrued liabilities	222	190
Total Adjustments	<u>\$ 20,871</u>	<u>\$ 53,287</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u><u>\$ 123,520</u></u>	<u><u>\$ 57,177</u></u>

See accompanying notes to the basic financial statements.

ENTERPRISE FUNDS		INTERNAL SERVICE FUND
NON MAJOR FUND		
REFUSE	TOTAL	EQUIPMENT
\$ 54,188	\$ 444,551	\$
(1,139)	(80,735)	66,194
(52,701)	(159,946)	(9,434)
	(22,825)	(27,246)
\$ 348	\$ 181,045	\$ 29,514
\$	\$ 1,237	\$
\$	\$ 8,013	\$
	(57,045)	
	(29,000)	7,500
	(59,672)	(4,875)
\$	\$ (137,704)	\$ 2,625
\$	\$ 8,676	\$ 3,511
\$ 348	\$ 53,254	\$ 35,650
2,862	484,953	136,525
\$ 3,210	\$ 538,207	\$ 172,175
\$ 615	\$ 107,154	\$ (1,328)
\$	\$ 72,448	\$ 31,500
(235)	7,830	
	(5,725)	
(32)	(1,074)	(670)
	412	12
\$ (267)	\$ 73,891	\$ 30,842
\$ 348	\$ 181,045	\$ 29,514

CITY OF READING, MICHIGAN
DISCRETELY PRESENTED COMPONENT UNIT -
TAX INCREMENT FINANCE AUTHORITY

BALANCE SHEET

JUNE 30, 2006

ASSETS	
Cash	<u><u>\$ 127,391</u></u>
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	<u><u>\$ 1,724</u></u>
Fund Balance:	
Unreserved, undesignated	<u><u>\$ 125,667</u></u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 127,391</u></u>

See accompanying notes to the basic financial statements.

CITY OF READING, MICHIGAN

DISCRETELY PRESENTED COMPONENT UNIT -
TAX INCREMENT FINANCE AUTHORITY

RECONCILIATION OF THE TAX INCREMENT FINANCE AUTHORITY'S
FUND BALANCE SHEET WITH THE STATEMENT OF NET ASSETS

YEAR ENDED JUNE 30, 2006

TAX INCREMENT FINANCE AUTHORITY FUND BALANCE		\$ 125,667
Amounts reported for Tax Increment Finance Authority in the statement of net assets are different because:		
Capital assets are not financial resources, and are not reported in the funds		
The cost of the capital assets is	\$ 17,860	
Accumulated depreciation is	<u>(5,880)</u>	
		11,980
Long-term liabilities are not due and payable in the current period and are not reported in the funds		
Bank notes		(578,521)
Investments in land held for sale are not current resources and therefore are not available to pay for current year expenditures		<u>909,469</u>
NET ASSETS OF TAX INCREMENT FINANCE AUTHORITY		<u><u>\$ 468,595</u></u>

See accompanying notes to the basic financial statements.

CITY OF READING, MICHIGAN

DISCRETELY PRESENTED COMPONENT UNIT -
TAX INCREMENT FINANCE AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2006

REVENUE	
Taxes	\$ 87,020
Interest	3,677
Lease revenue	31,429
Other	<u>270</u>
TOTAL REVENUES	\$ <u>122,396</u>
EXPENDITURES	
Wages	\$ 32,660
Contracted services	4,482
Office supplies and maintenance	574
Legal and professional	3,225
Memberships and dues	345
Utilities	1,969
Community promotion	2,844
Land improvements	89,603
Engineering	3,000
Contribution to City of Reading	4,625
Property taxes	9,108
Miscellaneous	<u>2,789</u>
TOTAL EXPENDITURES	\$ <u>155,224</u>
REVENUES (UNDER) EXPENDITURES	\$ <u>(32,828)</u>
OTHER FINANCING (USES)	
Payment on note:	
Principal	\$ (17,798)
Interest	<u>(33,682)</u>
TOTAL OTHER FINANCING USES	\$ <u>(51,480)</u>
NET CHANGE IN FUND BALANCE	\$ (84,308)
FUND BALANCE - BEGINNING OF YEAR	<u>209,975</u>
FUND BALANCE - END OF YEAR	<u>\$ 125,667</u>

See accompanying notes to the basic financial statements.

CITY OF READING, MICHIGAN

DISCRETELY PRESENTED COMPONENT UNIT -
TAX INCREMENT FINANCE AUTHORITY

RECONCILIATION OF THE TAX INCREMENT FINANCE AUTHORITY'S STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

NET CHANGE IN FUND BALANCE - TOTAL TAX INCREMENT FINANCE AUTHORITY FUND	\$ (84,308)
Amounts reported for Tax Increment Finance Authority in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures, and in the statement of activities these costs are allocated over their estimated useful lives as depreciation:	
Depreciation expense	(1,556)
Investment in land sold at cost is an expense in the statement of activities, but not in fund financial statements	(15,294)
Reduction in long-term receivables for uncollectible portion is reported as an expense in the statement of activities, but there is no effect to fund financial statements	(854)
Repayment of principal on bank notes is an expenditure in the fund financial statements, but not in the statement of activities (where it reduces long-term debt)	<u>17,798</u>
CHANGE IN NET ASSETS - TAX INCREMENT FINANCE AUTHORITY	<u>\$ (84,214)</u>

See accompanying notes to the basic financial statements.

CITY OF READING, MICHIGAN

FIDUCIARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2006

	PRIVATE PURPOSE TRUST - CEMETERY PERPETUAL CARE FUND
ASSETS	
Cash	<u>\$ 7,289</u>
NET ASSETS	
Expendable	<u>\$ 7,289</u>

See accompanying notes to the basic financial statements.

CITY OF READING, MICHIGAN
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN NET ASSETS
 YEAR ENDED JUNE 30, 2006

	PRIVATE PURPOSE TRUST - CEMETERY PERPETUAL CARE FUND
REVENUE	
Interest revenue	<u>\$ 47</u>
NET ASSETS - BEGINNING OF THE YEAR	<u>\$ 7,242</u>
NET ASSETS - END OF THE YEAR	<u><u>\$ 7,289</u></u>

See accompanying notes to the basic financial statements.

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Reading, Michigan conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

FINANCIAL REPORTING ENTITY

Established on May 4, 1934, the City of Reading, Michigan, most recently amended its Charter on July 12, 2000. The City operates under a Council-Manager form of government and provides the following services as authorized by its Charter: Public Safety (Police and Fire), Highway and Streets, Sanitation, Recreation, Public Improvements, Planning and Zoning, and General Administrative Services.

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

In conformity with generally accepted accounting principles, the financial statements of the component unit have been included in the financial reporting entity as a discretely presented component unit.

The Tax Increment Financing Authority (TIFA) (the "Authority") is organized and incorporated as authorized by the Tax Increment Authority Act, P.A. 450 of 1980. The Authority is a component unit of the City of Reading, Michigan governed by a separate board appointed by the City Council, created to promote economic growth in the City of Reading, Michigan.

Discretely Presented Component Unit - The component unit column in the basic financial statements include the financial data of the City's component unit. The unit is reported in a separate column to emphasize that it is legally separate from the City.

Tax Increment Finance Authority (TIFA) - The Authority is governed by a separate board appointed by the City Council to promote economic growth in the TIFA district.

Joint Venture - Discussed at Note 2.

ECONOMIC DEPENDENCY

The City is economically dependent on the State of Michigan for state shared revenues. Absent allocations from the State, the City's operating results would report expenditures exceeding revenues in its General, Major Street, and Local Street Funds. Furthermore, the aforementioned funds would be in a deficit position within a two year period continuing the services the City currently offers.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements report information on all of the non-fiduciary activities of the primary government and its component unit. The effect of inter-fund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues. Business-type activities rely on user fees and charges.

CITY OF READING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONCLUDED)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and, (2) grants and contributions that are restricted to meeting the operational and capital requirements of a particular function. Taxes, intergovernmental payments, and other items not included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements; remaining funds are reported in the aggregate as non-major funds.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND
FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Funds

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures related to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Major revenue types for which receivables are recorded on the current accounting period's balance sheet include property taxes and State-shared revenues. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

The *General Fund* is the general operating fund of the City. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

CITY OF READING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND
FINANCIAL STATEMENT PRESENTATION (CONTINUED)

Additionally, the City reports the following governmental fund types:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes. The City reports its *Major and Local Street Funds* as Special Revenue Funds that account for revenue received from gasoline tax through the State of Michigan under Act 51. Expenditures in these funds include maintenance of streets and roadway improvements.

Proprietary Funds

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for services. Operating expenses for proprietary funds include the cost of services, administrative expenses, and depreciation of capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses. The City maintains the two proprietary fund types, enterprise and internal service funds.

Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

The City reports the following major enterprise funds:

The *Water and Sewer Funds* account for the activities of the water distribution and sewage collection systems.

Additionally, the City reports one non-major Enterprise Fund, the Refuse Fund, which accounts for solid waste disposal billings and operating expenses.

The *Internal Service Fund* accounts for shared machinery and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis. This fund accounted for 35% and 65% of its activity with business-type and governmental activities, respectively. As a result, the assets and equity were reported in governmental activities and the net profit was allocated on a pro rata basis based on the aforementioned activity percentages. Business-type and governmental activities reported net profit of \$3,389 and \$6,294 respectively, for a total net profit of \$9,683. Therefore, the Internal Service Fund's net assets in the total amount of \$339,515 is reported in the business-type and governmental activities in the amounts of \$9,296 and \$330,219, respectively.

Fiduciary Funds

Fiduciary Funds are used to account for assets held in a trustee or agency capacity for others, and therefore are not available to support City operations. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are not included in the government-wide statements. The City presently collects and distributes property taxes on behalf of and to other local units of government through its Agency Fund. The Private Purpose Trust Fund accounts for financial resources that were accumulated for the benefit of a deceased individual. The financial resources are restricted to expenditures for the maintenance of grave sites.

CITY OF READING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND
FINANCIAL STATEMENT PRESENTATION (CONCLUDED)

Additional Information

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort costs and program revenues reported for the various functions concerned.

When expenses are incurred for purposes for which both restricted and unrestricted net assets are available, restricted net assets are used prior to unrestricted net assets.

BANK DEPOSITS

Cash includes cash on hand, demand deposits, savings, certificate of deposits, and municipal mutual funds that are highly liquid.

RECEIVABLES AND PAYABLES

Outstanding balances between funds from lending/borrowing arrangements outstanding at the end of the fiscal year are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All receivables are reported at their net realizable values.

INVENTORY

Inventories in proprietary funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost which is recorded as expenditure at the time individual inventory items are used.

CAPITAL ASSETS

Capital assets that include land, buildings, improvements, equipment, and vehicles are reported in the government-wide financial statements. The City defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized but rather expensed in the period incurred.

The City elected under Governmental Accounting Standards Board Statement No. 34 not to report infrastructure retrospectively. Newly acquired or constructed infrastructure will be capitalized and depreciated over their useful lives. There were no additions to infrastructure during the year.

CITY OF READING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITAL ASSETS (CONCLUDED)

Buildings, improvements, equipment, vehicles and infrastructure are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	50
Improvements	25
Equipment	3 - 20
Vehicles	4 - 10
Infrastructure	15 - 50

COMPENSATED ABSENCES

Eligible employees may earn ninety-six hours of sick time annually. However, only eighty hours can be accumulated and carried over to the next fiscal year. Employees are paid 33% of earned sick leave exceeding eighty hours at the end of the fiscal year. Upon death or retirement, accumulated sick days are paid at the employee's prevailing rate of pay. Due to the uncertainty of maturity of this liability, the City has accrued the estimated amount of accumulated sick pay in noncurrent liabilities in the statement of net assets.

Furthermore, eligible employees earn vacation leave time upon the completion of twelve months of service and thereafter, on the employees anniversary date. A total of 5 to 20 days of vacation may be earned based on the number of service years employed. Employees cannot accumulate vacation leave, and therefore it is forfeited if not used by the employee's following anniversary date.

During the year, the net increase in compensated absences was \$483 leaving an ending balance of \$11,564.

LONG-TERM OBLIGATIONS

In the government-wide financial statements and the proprietary fund types, reported in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. If applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF READING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

PROPERTY TAX

The City of Reading, Michigan, bills and collects property taxes and distributes them to other local units of government. Properties are assessed as of December 31, and the related real property taxes are levied and become a lien and are payable on July 1 of the following year for summer taxes and December 1 for winter taxes. Summer and winter taxes are due without penalty if paid by September 14 and February 14, respectively. Delinquent taxes are turned over to the County and added to the County tax roll. The County remits all uncollected City delinquent real property tax to the City by June 30. Uncollected personal property taxes are not accrued because the date of collection is uncertain.

BUDGETS AND BUDGETARY ACCOUNTING

The City's procedures in establishing the budgetary data reflected in the financial statements are as follows:

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of a resolution.
4. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.
6. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles, which is the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget approved or as amended by the City Council. The General Fund budget is adopted at the department level and all other funds are adopted at the fund level.

ENCUMBRANCE ACCOUNTING

Encumbrances for goods and services are documented by requisitions or contracts. Appropriations lapse at June 30 and any encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at June 30, 2006.

CITY OF READING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 2: JOINT VENTURE

The City participates with the Reading Township in the Reading Community Fire Department (the "Department"), a joint venture pursuant to an agreement entered into between the two parties. In accordance with the provisions of Governmental Accounting Standards Board No. 14, the joint venture results from the on going financial responsibility of the Department's operations agreed to by the aforementioned municipalities pursuant to the contractual agreement. The Board of Directors is comprised of two members of the City of Reading Council, two members of the Reading Township Board, and the Reading Community Fire Department fire chief.

The agreement is silent with respect to termination of the joint venture by either of the municipalities.

The Fire Department reported expenditures in excess of revenues in the amount of \$8,800 in its year ended April 30, 2006 general ledger. The City of Reading, Michigan, reported \$4,400 (fifty percent) of the expenditures over revenues in its government-wide financial statements in governmental activities. The City's investment in the joint venture is reported in the Statement of Net Assets under Governmental Activities in the amount of \$80,227. The financial activity of the Fire Department for its year ended April 30, 2006 has not been audited, and we were not engaged to audit the Fire Department's financial statements as part of our audit of the City's basic financial statements.

Copies of the Fire Department's financial statements may be obtained at the Reading Community Fire Department, in Reading, Michigan.

NOTE 3: DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The deposit and investment policy adopted by the City Council is in accordance with Public Act 196 of 1997.

At year end, deposits were comprised of checking, savings and certificate of deposit accounts as follows:

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units
Cash	\$ 582,353	\$ 379,616	\$ 961,969	\$ 127,391
Cash - restricted		158,591	158,591	
	<u>\$ 582,353</u>	<u>\$ 538,207</u>	<u>\$ 1,120,560</u>	<u>\$ 127,391</u>

Cash reported in business-type activities and fiduciary funds as restricted is for the repayment of bond obligations and perpetual care of the cemetery, respectively.

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 3: DEPOSITS AND INVESTMENTS (CONCLUDED)

Deposits

The City's deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$1,155,858. Of that amount, \$423,689 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those with an acceptable estimated risk level are used as depositories.

NOTE 4: LAND CONTRACT - TAX INCREMENT FINANCE AUTHORITY

During 2004, the Tax Increment Financing Authority (TIFA) obtained financing in the amount of \$600,000, for which it is fully obligated, to repurchase land and a building that it had sold in a previous fiscal year. Furthermore, the TIFA entered into a land contract agreement with a company in the amount of \$600,000, as a financing arrangement for the company to acquire the land and building from TIFA. During the current year the company defaulted on the land contract. TIFA holds the property as investment in land with the plan of selling it in the near future.

NOTE 5: INTERFUND RECEIVABLES AND PAYABLES / INTERNAL BALANCES

The following are interfund receivables (Due From) and payables (Due To):

Due From – collectible by:	Due to – payable by:	
General Fund	Refuse Fund	\$ 1,500
Governmental Activities	Business Activities	\$ 9,296

Monies owed to the General Fund are for an interfund loan to subsidize Refuse Fund's short-term cash flows. Internal Service Fund activities; see Note 1 on page 20.

NOTE 6: INVESTMENT IN LAND AND CEMETERY GRAVE SITES

Cemetery Grave Sites

The City has available for sale 3,249 cemetery grave sites. These grave sites are available to residents and nonresidents of the City at prices equal to \$400 and \$600 per grave site, respectively. At June 30, 2006 the grave sites were valued at \$1,299,600 based on the resident price of \$400 and reported as non-current assets in the statement of net assets in governmental activities.

Investment in Land – TIFA

The City's component unit, TIFA, has acquired real property over the past several years with the intent of developing and reselling the land to prospective companies or business owners interested in establishing their businesses in the City of Reading. Investment in these properties is recorded in the statement of net assets at original acquisition cost plus any excavating costs incurred in preparing the land for resale or further development.

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 7: CAPITAL ASSETS

Capital asset activity of the primary government was as follows:

	Balance July 1, 2005	Additions	Disposals	Balance June 30, 2006
<u>GOVERNMENTAL ACTIVITIES</u>				
Capital assets not being depreciated:				
Land	\$ 55,674	\$	\$	\$ 55,674
Parking lots - in process		4,625		4,625
Capital assets being depreciated:				
Streets		22,837		22,837
Drains	69,865			69,865
Buildings and improvements	177,454			177,454
Equipment	427,978	7,150	9,000	426,128
Vehicles	62,951			62,951
Technology	20,028	7,000		27,028
Subtotal	\$ 813,950	\$ 41,612	\$ 9,000	\$ 846,562
Accumulated depreciation:				
Streets	\$	\$ 1,142	\$	\$ 1,142
Drains	1,397	1,398		2,795
Buildings and improvements	96,234	3,494		99,728
Equipment	147,519	30,687	6,725	171,481
Vehicles	43,854	6,287		50,141
Technology	13,250	866		14,116
Subtotal	\$ 302,254	\$ 43,874	\$ 6,725	\$ 339,403
Net Capital Assets	\$ 511,696	\$ (2,262)	\$ 2,275	\$ 507,159

Governmental activities depreciation expense of \$43,874 is comprised of unallocated and allocated depreciation expense of \$12,374 and \$31,500, respectively. Allocated depreciation expense is depreciation calculated on capital assets maintained in the internal service fund. See significant accounting policies regarding internal service funds on page 20.

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 7: CAPITAL ASSETS (CONCLUDED)

	Balance July 1, 2005	Additions	Disposals	Balance June 30, 2006
<u>BUSINESS-TYPE ACTIVITIES</u>				
Capital assets not being depreciated:				
Land	\$ 20,550	\$	\$	\$ 20,550
Construction in process	142,242	48,872		191,114
Capital assets being depreciated:				
Water and sewer distribution system	3,552,927	7,400		3,560,327
Equipment	75,466	3,400		78,866
Subtotal	<u>\$ 3,791,185</u>	<u>\$ 59,672</u>	<u>\$</u>	<u>\$ 3,850,857</u>
Accumulated depreciated:				
Water and sewer distribution system	\$ 1,243,059	\$ 71,184	\$	\$ 1,314,243
Equipment	69,174	1,264		70,438
Subtotal	<u>\$ 1,312,233</u>	<u>\$ 72,448</u>	<u>\$</u>	<u>\$ 1,384,681</u>
Net Capital Assets	<u>\$ 2,478,952</u>	<u>\$ (12,776)</u>	<u>\$</u>	<u>\$ 2,466,176</u>

Depreciation expense charged to Business-Type Activities was \$72,448.

	Balance July 1, 2005	Additions	Disposals	Balance June 30, 2006
<u>COMPONENT UNIT – TIFA</u>				
Capital asset being depreciated:				
Equipment	\$ 17,860	\$	\$	\$ 17,860
Accumulated depreciation:				
Equipment	\$ 4,324	\$ 1,556	\$	\$ 5,880
Net Capital Asset	<u>\$ 13,536</u>	<u>\$ (1,556)</u>	<u>\$</u>	<u>\$ 11,980</u>

Depreciation expense charged to TIFA was \$1,556.

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 8: LONG-TERM DEBT

Long-term debt at June 30, 2006 is comprised of the following:

Governmental Activities

\$100,000 note - Hillsdale County National Bank, secured by equipment, due in semi-annual installments of \$5,000, which includes interest at 3.70% through August 2, 2014.	\$ 85,000
Less: current portion	<u>10,000</u>
NET LONG-TERM DEBT	<u>\$ 75,000</u>

Business-Type Activities

Water System Revenue Bonds, bearing interest at 5%. Principal payments due annually in January, in amounts from \$1,000 to \$14,000, maturing in 2020.	\$ 168,000
1980 Special Assessment Bonds, bearing interest at 5%. Principal payments due annually in September, in amounts from \$5,000 to \$15,000, maturing in 2009.	25,000
Water Supply System Junior Lien Revenue Bonds, bearing interest at 4.5%. Principal payments due annually in November in amounts from \$10,000 to \$61,000, maturing in 2036.	<u>1,038,000</u>
	\$ 1,231,000
Less: current portion	<u>30,000</u>
NET LONG-TERM DEBT	<u>\$ 1,201,000</u>

Component Unit

The Tax Increment Finance Authority obtained a loan described below from a local financial institution to finance the purchase of land and a building in the City of Reading, Michigan's Industrial Park. Likewise, the Authority entered into a land contract agreement with a company, whereby, the agreement allows the company to occupy the building and make payments toward the loan obligation until paid in full; see Note 4. The land contract agreement has been assigned to the financial institution to secure the note obligation. In the event the company defaults on the land contract the local financial institution has full recourse against either the company or the Authority to satisfy the outstanding obligation.

\$600,000 note - Century Bank and Trust, secured by assignment of land contract, due in monthly installments of \$3,960 including interest at 5.0%, through February 25, 2010, at which time a balloon payment in the amount of \$506,892 is due in full.	\$ 578,521
Less: current portion	<u>16,000</u>
NET LONG-TERM DEBT	<u>\$ 562,521</u>

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 8: LONG-TERM DEBT (CONTINUED)

The following is a summary of changes in long-term debt:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006
<u>GOVERNMENTAL ACTIVITIES</u>				
Fire Truck Note	\$ 95,000	\$	\$ 10,000	\$ 85,000
<u>BUSINESS-TYPE ACTIVITIES</u>				
Revenue Bonds	\$ 176,000	\$	\$ 8,000	\$ 168,000
Special Assessment Bonds	30,000		5,000	25,000
Junior Lien Revenue Bonds	1,054,000		16,000	1,038,000
	\$ 1,260,000	\$	\$ 29,000	\$ 1,231,000
<u>COMPONENT UNIT</u>				
Bank note	\$ 596,319	\$	\$ 17,798	\$ 578,521

The following is a schedule of principal and interest maturities:

	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 10,000	\$ 3,052	\$ 13,052	\$ 30,000	\$ 55,327	\$ 85,327
2008	10,000	2,683	12,683	33,000	53,790	86,790
2009	10,000	2,312	12,312	34,000	52,207	86,207
2010	10,000	1,943	11,943	41,000	50,252	91,252
2011	10,000	1,572	11,572	32,000	48,775	80,775
2012-2016	35,000	2,590	37,590	175,000	220,136	395,136
2017-2021				201,000	175,267	376,267
2022-2026				180,000	133,784	313,784
2027-2031				225,000	88,211	313,211
2032-2036				280,000	32,580	312,580
	\$ 85,000	\$ 14,152	\$ 99,152	\$ 1,231,000	\$910,329	\$ 2,141,329

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 8: LONG-TERM DEBT (CONCLUDED)

	Component Unit		
	Principal	Interest	Total
2007	\$ 16,000	\$ 31,520	\$ 47,520
2008	18,000	29,520	47,520
2009	20,000	27,520	47,520
2010	524,521	17,629	542,150
	<u>\$ 578,521</u>	<u>\$ 106,189</u>	<u>\$ 684,710</u>

Cash paid for interest during the year for governmental activities, business-type activities, and TIFA was \$3,414, \$57,045 and \$33,682, respectively.

NOTE 9: DEFINED BENEFIT PENSION PLAN

Plan Description

The City participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple employer plan administered by the Retirement Board of MERS. The Plan provides retirement and disability benefits, annual cost of living adjustments and death benefits to Plan members and beneficiaries. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917, or by call (800) 767-6377.

Funding Policy

The City's annual contribution requirement is 5.76% and 5.52%, estimated at \$9,096 and \$7,824 (based on actuarial valuation payroll), of participating employee's covered payroll effective July 1, 2007 and 2006, respectively. City employees are not required to contribute to the plan. These contribution percentages are based on the actuarial valuation date as of December 31, 2005. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS.

Funding Progress

The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age normal actuarial method. The significant actuarial assumptions used include (a) a rate of return of the investment of present and future assets of 8%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 8.40% per year, depending on age, attributable to longevity and merit.

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 9: DEFINED BENEFIT PENSION PLAN (CONCLUDED)

Information related to funding of the pension benefit obligation as of December 31, 2005 actuarial valuation is as follows:

Pension Benefit Obligation

Actuarial Accrued Liability:	
Retirees and beneficiaries currently receiving benefits	\$ 60,999
Terminated employees not yet receiving benefits	7,777
Employer financed	<u>152,570</u>
Total Actuarial Accrued Liability (AAL)	\$ 221,346
Net assets available for benefits at actuarial value (market value is \$182,662)	<u>187,606</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 33,740</u>

The actuarial value of assets was determined on the basis of a method that calculates expected investment income at the valuation rate of return and adds a portion of the difference between the expected investment income and actual investment income earned on a market value basis. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at December 31, 2005 was 30 years.

Trend Information

<u>Year Ended</u> <u>June 30,</u>	<u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
2004	\$ 10,300	61%	\$ 16,934
2005	7,848	33%	23,478
2006	8,197	24%	33,740

The required supplementary information (see table of contents) contained in the additional information is designed to provide information about the plan's progress in accumulating sufficient assets to pay benefits when due.

NOTE 10: FUND EQUITIES

Reserved and designated fund balances and restricted net assets at June 30, 2006 are as follows:

General Fund reserved fund balance of \$1,438 is comprised of unexpended Act 302 monies of \$1,000 distributed by the State of Michigan for police training, and community donations of \$438 restricted for park renovations.

Additionally, the City Council designated \$31,679 of fund balance for future replacement of fire equipment for the Reading Community Fire Department.

Water Fund – Net assets in the amount of \$158,591 are restricted for the repayment of bond debt.

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 11: OPERATING TRANSFERS

Interfund transfers for the current year are as follows:

Governmental Funds

Transfers (out) from:	Transfers in to:	
General Fund	Local Street Fund	\$ 29,000
Major Street Fund	Local Street Fund	<u>10,000</u>
	Total	<u>\$ 39,000</u>

Transfers from the General and Major Street Fund to the Local Street Fund are to support local street maintenance.

NOTE 12: RELATED PARTY TRANSACTIONS

During the year ended June 30, 2006, the City of Reading incurred expenditures in the amount of \$32,404 and \$7,120 for health insurance and supplies, respectively, from a local insurance agent and equipment and supplies retailer who serve as members of the City's Tax Increment Finance Authority. The purchasing terms of these transactions are equivalent to purchasing terms of other city vendors.

NOTE 13: RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors, and omissions, employee injuries, unemployment benefits, as well as medical and workmen's compensation benefits provided to employees. The City has purchased commercial insurance for general liability on buildings and property, equipment damage and theft, employee theft, and limited tort claims for specific City facilities or events.

The City participates in the Michigan Municipal League Unemployment Compensation Group Account, a public risk pool established to operate a common risk management and insurance program for municipalities. The City pays premiums to the account for its unemployment compensation coverage. The agreement for formation of the account provides that the account will be self-sustaining through member premiums.

The City continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

NOTE 14: CONTINGENCIES

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement to the grantor or regulatory agencies. However, City management does not believe such disallowances, if any, will be material to the financial position of the City.

As is the case with other entities, the City faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2006.

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
JUNE 30, 2006

NOTE 15: SANITARY SEWER IMPROVEMENTS

In November 2003 the City Council passed a resolution of intent to issue and sell revenue bonds in an amount not to exceed \$2,200,000 for the purpose of paying for the cost of acquiring and constructing sewer system improvements. However, due to various project modifications and delays the project is not expected to begin until fiscal year 2006/2007. Furthermore, due to the projected increase in cost of the project, the City issued a second resolution of intent to sell additional revenue bonds not to exceed \$950,000 resulting in total anticipated project cost of \$3,150,000.

NOTE 16: OPERATING LEASES – TAX INCREMENT FINANCE AUTHORITY

During the year the Tax Increment Finance Authority (TIFA) entered into a lease agreement with a third party to lease land and building. The terms of the lease require the lessee to pay TIFA \$4,000 per month, on a month to month basis, commencing on December 1, 2005. Either party may terminate the lease upon thirty days notice to the other party. As of June 30, 2006 the TIFA collected and recognized \$28,000 in lease revenue.

The TIFA collected additional lease revenue totaling \$3,129 in other miscellaneous lease agreements that are renewable annually.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF READING, MICHIGAN
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND
YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	FINAL BUDGET TO ACTUAL
REVENUE				
Taxes	\$ 139,994	\$ 139,994	\$ 145,816	\$ 5,822
State revenues	131,535	131,535	140,883	9,348
Charges for services	16,100	16,100	27,957	11,857
Licenses and permits	5,600	5,600	5,616	16
Fines, fees, and forfeits	980	980	228	(752)
Component unit contributions	4,800	4,800	9,195	4,395
Interest	3,000	3,000	13,244	10,244
Lease revenue	2,400	2,400	2,600	200
Other	4,250	4,250	8,750	4,500
TOTAL REVENUES	<u>\$ 308,659</u>	<u>\$ 308,659</u>	<u>\$ 354,289</u>	<u>\$ 45,630</u>
EXPENDITURES				
General government	\$ 14,916	\$ 20,916	\$ 17,951	\$ 2,965
City manager	8,741	9,741	6,971	2,770
Elections	2,180	2,180	2,151	29
Professional fees	15,500	18,000	11,591	6,409
Clerk/treasurer office	13,567	13,567	9,839	3,728
Assessor	10,652	10,652	8,663	1,989
Building and grounds	39,295	42,295	25,672	16,623
Cemeteries	38,265	43,265	38,024	5,241
Public safety	95,394	93,394	76,029	17,365
Plan and zoning	4,198	4,198	3,059	1,139
Parks and recreation	3,000	3,000		3,000
Utility - city wide	16,000	17,700	16,413	1,287
Insurance	19,500	19,500	19,428	72
Capital outlay			11,625	(11,625)
TOTAL EXPENDITURES	<u>\$ 281,208</u>	<u>\$ 298,408</u>	<u>\$ 247,416</u>	<u>\$ 50,992</u>
REVENUES OVER EXPENDITURES	<u>\$ 27,451</u>	<u>\$ 10,251</u>	<u>\$ 106,873</u>	<u>\$ 96,622</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers (out)	\$ (68,260)	\$ (51,060)	\$ (29,000)	\$ 22,060
Payment on note	(13,423)	(13,423)	(13,414)	9
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ (81,683)</u>	<u>\$ (64,483)</u>	<u>\$ (42,414)</u>	<u>\$ 22,069</u>
NET CHANGE IN FUND BALANCE	<u>\$ (54,232)</u>	<u>\$ (54,232)</u>	<u>\$ 64,459</u>	<u>\$ 118,691</u>
FUND BALANCE - BEGINNING OF YEAR	<u>360,169</u>	<u>360,169</u>	<u>360,169</u>	
FUND BALANCE - END OF YEAR	<u><u>\$ 305,937</u></u>	<u><u>\$ 305,937</u></u>	<u><u>\$ 424,628</u></u>	<u><u>\$ 118,691</u></u>

CITY OF READING, MICHIGAN
REQUIRED SUPPLEMENTAL INFORMATION
RETIREMENT SYSTEM REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS

MICHIGAN MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

JUNE 30, 2006

SCHEDULE OF FUNDING PROGRESS

ACTUARIAL VALUATION DATE	(a) ACTUARIAL VALUE OF ASSETS	(b) ACTUARIAL ACCRUED LIABILITY (AAL) ENTRY AGE	(b-a) UNFUNDED AAL (UAAL)	FUNDED RATIO TOTAL	(c) COVERED PAYROLL	((b-a)/c) UAAL AS A PERCENTAGE OF COVERED PAYROLL
12/31/03	\$156,213	\$173,147	\$16,934	90%	\$163,171	10%
12/31/04	173,376	196,854	23,478	88%	141,888	17%
12/31/05	187,606	221,346	33,740	85%	157,979	21%

Analysis of the dollar amounts of net assets available for benefits, actuarial accrued liability (AAL) and unfunded "AAL" in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the "AAL" provides one indication of the retirement system's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in unfunded "AAL" and annual covered payroll are both affected by inflation. Expressing the unfunded "AAL" as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the retirement system's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

OTHER REPORTS



Osbourne, March, Condon & Co., P.C.

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CITY OF READING, MICHIGAN
GAO GOVERNMENT AUDITING STANDARDS REPORT

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the City Council
City of Reading, Michigan
Reading, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Reading, Michigan as of and for the year ended June 30, 2006, which collectively comprise the City of Reading, Michigan's basic financial statements and have issued our report thereon dated August 10, 2006. The opinion on the City's governmental activities financial statements was qualified because the City included in those statements its investment in Reading Community Fire Department, a joint venture between the City of Reading, Michigan and Reading Township, Michigan, based on financial statements that have not been audited, and we were not engaged to audit the joint venture financial statements as part of our audit of the City's basic financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Reading, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Reading, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted matters involving the internal control over financial reporting that we have reported to management of City of Reading, Michigan, in a separate letter dated August 10, 2006.

This report is intended for the information of the City Council, management, and the State of Michigan. However, this report is a matter of public record and its distribution is not limited.

Osbourne, March, Condon & Co P.C.

Certified Public Accountants

Hillsdale, Michigan
August 10, 2006



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CITY OF READING, MICHIGAN
AUDITOR'S COMMENTS AND RECOMMENDATIONS

August 10, 2006

City Council
City of Reading, Michigan
Reading, MI 49274

In planning and performing our audit of the financial statements of City of Reading, Michigan for the year ended June 30, 2006, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated August 10, 2006, on the financial statements of City of Reading, Michigan.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with the City's management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Osbourne, March, Condon & Co P.C.

Certified Public Accountants

ECONOMIC AND CONSTRUCTION PROJECTS

During our audit engagement we became aware of many economic projects spearheaded by the City's Tax Increment Finance Authority (TIFA). Furthermore, it was disclosed to us that the City is planning to begin its sewer construction project during the 2006-2007 fiscal year.

Special projects need to be accounted for as if each project is a fund like any other fund in the City's financial books. It is critical to make sure that all transactions are accounted for in detail and separate from other City and TIFA activities and to summarize the project transactions accurately in order to report timely information. That information will be used to analyze the projects progression, to make financial decisions, and to keep the community informed throughout the project's duration.

This will be especially true with respect to the sewer construction project because the project will be funded with revenue bonds that will be paid back over the next forty years. Close monitoring of cost incurred and what the City is instructed to pay per construction pay estimates is crucial to avoid over paying on a project. We point this out because of our prior experience with a municipality over paying on an estimate because of errors made by the construction contractors.

Currently the City employs one individual that has a financial background, Kim Blythe, City Manager/Treasurer/Clerk. Kim is very good at her job. However, Kim's work load may not permit her to carry out the responsibilities of maintaining these projects; by the very nature of all her titles she is very busy administering the City's day to day operations.

Therefore, we recommend, the City consider hiring Osbourne, March, Condon & Co., P.C. to oversee the financial activity of the various projects that are forthcoming in the near future. Following are some of the services that we can provide:

1. Give oversight to the accounting of each project; i.e., make sure that all revenue and disbursement transactions are correctly posted to the accounts in the financial books.
2. Oversee cash flow to make sure projects are not interrupted.
3. Reconcile each projects financial records with outside vendor or construction reports.
4. Report on each project at an interim date; i.e., weekly, bi-weekly, or monthly.
5. Prepare reports requested by third parties.
6. Ensure project records are in order for the annual audit.
7. Provide financial consulting on projects progression.

The above list is certainly not all inclusive but rather provides you with a starting point of the various responsibilities that need to be considered prior to commencing a project. We are not making this recommendation because we feel that Kim can not carry out the functions of a project but rather recognize her limited time. Additionally, we believe that our services would benefit Rick Holmes in that he could focus on the project administration in the field which is the best use of his talents and strength versus dealing with the financial paperwork.

Upon reviewing and discussing our recommendation we would greatly accept the opportunity to meet with you and discuss your considerations and perceptions of the critical areas that we can be of service to the City.